

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Caro Transit Authority	County Tuscola
Audit Date 9/30/06	Opinion Date 3/26/07	Date Accountant Report Submitted to State: 3/29/07	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

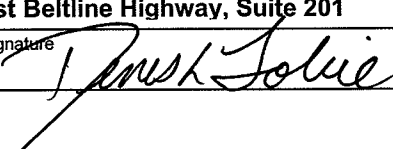
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Wipfli LLP			
Street Address 2901 West Beltline Highway, Suite 201		City Madison	State WI
Accountant Signature 		ZIP 53713	Date 3-29-07

Caro Transit Authority

Caro, Michigan

Financial Statements and Supplementary Information
Year Ended September 30, 2006

Caro Transit Authority

Financial Statements and Supplementary Information Year Ended September 30, 2006

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Independent Auditor's Report

Board of Directors
Caro Transit Authority
Caro, Michigan

We have audited the accompanying statement of net assets of Caro Transit Authority as of September 30, 2006, and the related statements of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Caro Transit Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Michigan Department of Transportation *Audit Guide for Transportation Authorities and Agencies in Michigan*. Those standards and the Michigan *Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 and Note 3 to the financial statements, Caro Transit Authority expenses equipment purchased through Michigan Department of Transportation grant awards rather than capitalizing such equipment and depreciating the equipment over its useful life. This method of accounting for equipment purchases is in accordance with grant budgets authorized by the Michigan Department of Transportation; however, in order to conform with accounting principles generally accepted in the United States, in our opinion, all capital expenses should be capitalized and depreciated over their estimated useful lives. The effects of that departure from accounting principles generally accepted in the United States on the accompanying financial statements are not reasonably determinable.

In our opinion, except for the effects of not capitalizing and depreciating grant purchased equipment as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Caro Transit Authority as of September 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2007, on our consideration of Caro Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Caro Transit Authority has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not a required part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 10 through 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of not capitalizing and depreciating grant purchased equipment, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Wipfli LLP", is written in dark ink.

Wipfli LLP

March 26, 2007
Madison, Wisconsin

Caro Transit Authority

Statement of Net Assets

September 30, 2006

<i>Assets</i>	
Current assets:	
Cash and cash equivalents	\$ 254,810
Grants receivable	50,993
Accounts receivable	5,804
Total current assets	311,607
Capital assets:	
Equipment, net	64,363
TOTAL ASSETS	\$ 375,970
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Accounts payable	\$ 78,891
Total liabilities	78,891
Unrestricted net assets	297,079
TOTAL LIABILITIES AND NET ASSETS	\$ 375,970

Caro Transit Authority

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2006

	Program Operations	Equipment	Total
Operating revenue (Schedule 1)	\$ 108,998	\$ 0	\$ 108,998
Operating expenses (Schedule 2)	(753,957)	0	(753,957)
Operating loss	(644,959)	0	(644,959)
Nonoperating revenue (Schedule 3)	606,303	0	606,303
Equipment award (Schedule 9)	0	75,679	75,679
Equipment purchase (Schedule 9)	0	(75,679)	(75,679)
Prior year equipment purchase	0	(2,658)	(2,658)
Excess revenue over expenses	(38,656)	(2,658)	(41,314)
Unrestricted net assets - September 30, 2005	335,735	2,658	338,393
Unrestricted net assets - September 30, 2006	\$ 297,079	\$ 0	\$ 297,079

Caro Transit Authority

Statement of Cash Flows

Year Ended September 30, 2006

Cash flows from operating activities:	
Farebox receipts	\$ 108,998
Payments to suppliers	(282,685)
Payments to employees	(469,318)
Net cash used in operating activities	(643,005)
Cash flows from non-capital financing activities:	
County millage receipts	201,861
Operating grant receipts	420,736
Net cash provided by non-capital financing activities	622,597
Cash flows from capital and related financing activities:	
Equipment grant receipts	75,679
Purchase of capital assets	(87,365)
Proceeds from sale of capital assets	250
Interest received	5,231
Net cash used in capital and related financing activities	(6,205)
Change in cash	(26,613)
Cash and cash equivalents - September 30, 2005	281,423
Cash and cash equivalents - September 30, 2006	\$ 254,810
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	(\$ 644,959)
Adjustments to reconcile operating loss net cash used in operating activities:	
Depreciation	15,882
Changes in operating assets and liabilities:	
Accounts payable	(13,928)
Net cash used in operating activities	(\$ 643,005)

See accompanying notes to financial statements.

Caro Transit Authority

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Nature of Operations

Caro Transit Authority (CTA) was organized under Public Act 196 of 1986 to provide transportation services within a prescribed service area of the Caro area of Michigan. CTA is governed by a Board of Directors, which has been appointed by the common council of the Village of Caro and the Boards of Indianfields and Almer Townships. A property tax levy is assessed by both townships to provide capital for operations. CTA contracts with Human Development Commission, a nonprofit organization, to operate the bus system. The Michigan Department of Transportation (MDOT) provided CTA with 61% of its revenue for the year ended September 30, 2006.

Significant Policies

The financial statements of CTA have been prepared in conformity with accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The significant accounting principles and policies utilized by CTA are described below.

Reporting Entity

CTA is organized as a quasi-governmental agency. CTA is governed by a Board of Directors, which has been appointed by the common council of the Village of Caro and the Boards of Indianfields and Almer Townships.

The accompanying financial statements present the activities of CTA. CTA is not a component unit of another reporting entity nor does it have any component units.

The reporting entity consists of (a) organizations for which the standalone government is financially accountable and (b) the standalone government that is controlled by a separately elected governing body that is legally separate and is fiscally independent. All of the accounts of CTA comprise the standalone government.

Caro Transit Authority

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of Presentation

CTA is reported as an enterprise fund in the financial statements. An enterprise fund accounts for operations: (a) that are financed and operating in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that period determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The financial statements are prepared using the accrual basis of accounting.

The accounting policies of CTA conform to accounting principles generally accepted in the United States as applicable to governmental units, except for accounting for equipment purchased or transferred by MDOT.

Capital Assets

The policy on capital assets purchased through MDOT grant awards differs from accounting principles generally accepted in the United States. Grant-purchased capital assets are charged to expenses in the period of purchase and are recorded on the balance sheet as a fully-depreciated asset. The capital assets are owned by CTA while used for the purpose it was purchased. MDOT has a reversionary interest in capital assets purchased with grant funds.

Capital assets purchased with nongrant funds consist of vehicles which are capitalized at cost and depreciated over five years on the straight-line method. CTA capitalizes capital assets with a cost of at least \$5,000 and a useful life of more than one year.

Cost Allocation Plan

The cost allocation plan used to allocate various administrative expenses has been approved by MDOT.

Use of Estimates

The preparation of financial statements with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Caro Transit Authority

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

CTA maintains cash and cash equivalents at a financial institution. CTA considers certificates of deposit with an original maturity of 90 days or less to be cash equivalents.

Note 2 Grants Receivable

The grants receivable are as follows:

	Grants Receivable 10/1/2005	Funds Earned	Less Funds Received	Grants Receivable 9/30/2006
Operating grant	\$ 0	\$ 279,814	(\$ 268,947)	\$ 10,867
Operating PY reconciliation	41,820	6,178	(47,998)	0
Section 5311 - 2006	12,661	113,075	(115,436)	10,300
Section 5311 - PY reconciliation	8,901	6,713	(8,901)	6,713
RTAP	0	125	(125)	0
Equipment grant	2,442	75,679	(55,008)	23,113
Totals	\$ 65,824	\$ 481,584	(\$ 496,415)	\$ 50,993

Note 3 Capital Assets

Equipment purchased with MDOT grant awards is expensed in the period of purchase and recorded as a fully-depreciated asset. Equipment purchased with CTA funds are capitalized and depreciated over their economic life on the straight-line depreciation method. The activity relating to capital assets during the program year ended September 30, 2006, is as follows:

	Balance 10/1/2005	Additions	Deletions	Balance 9/30/2006
Vehicles	\$ 478,728	\$ 80,413	(\$ 89,003)	\$ 470,138
Other equipment	26,341	0	0	26,341
Accumulated depreciation	(433,852)	(87,267)	89,003	(432,116)
Capital assets - net	\$ 71,217	(\$ 6,854)	\$ 0	\$ 64,363

Caro Transit Authority

Notes to Financial Statements

Note 3 Capital Assets (Continued)

Equipment purchased with MDOT grant funds and CTA funds are as follows:

	Grant Purchased	CTA Purchased	Total
Vehicles	\$ 389,893	\$ 80,245	\$ 470,138
Other equipment	26,341	0	26,341
Accumulated depreciation	(416,234)	(15,882)	(432,116)
Capital assets - net	\$ 0	\$ 64,363	\$ 64,363

Note 4 Deposits

Custodial credit risk: Custodial credit risk is the risk that in the event of a financial institution failure, CTA's deposits may not be returned. CTA's deposit policy is that cash is deposited in financial institutions with Federal Deposit Insurance Corporation (FDIC) coverage.

CTA maintains cash at a financial institution. The account is insured by FDIC up to \$100,000. Balances in excess of \$100,000 at individual financial institutions are not collaterally secured. At September 30, 2006, the amount of cash and cash equivalents in excess of FDIC coverage was \$154,810.

Note 5 Risk Management

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Supplementary Information

Caro Transit Authority

Schedule 1

Operating Revenue

Subcontractor - Human Development Commission

Year Ended September 30, 2006

Operating revenue:

Line-haul (fare box)	\$ 108,998
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Operating revenue	\$ 108,998
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Caro Transit Authority

Schedule 2

Operating Expenses

Subcontractor - Human Development Commission

Year Ended September 30, 2006

	Operating			
	Operations	Maintenance	General Administration	Total
Purchased transportation services	\$ 485,616	\$ 107,277	\$ 161,064	\$ 753,957
Totals	\$ 485,616	\$ 107,277	\$ 161,064	\$ 753,957

Note: Caro Transit Authority delegates operation of the transit program to Human Development Commission.
All of the above purchased transportation services were paid by Human Development Commission.

Caro Transit Authority

Schedule 3

Nonoperating Revenue

Subcontractor - Human Development Commission

Year Ended September 30, 2006

	Program Operations
Local revenue:	
Indianfields and Almer Townships	\$ 194,917
State of Michigan grants:	
Operating grant award	279,814
PY Operating reconciliation	6,178
Subtotal State of Michigan grants	285,992
Federal grants:	
U.S. DOT operating grant - Section 5311	113,075
U.S. DOT operating grant - Section 5311 PY	6,713
RTAP	125
Subtotal federal grants	119,913
Other revenue:	
Sale of equipment	250
Interest income	5,231
Total other revenue	5,481
Total nonoperating revenue	\$ 606,303

Caro Transit Authority

Schedule 4

Schedule of Expenses by Contract and General Operations

Subcontractor - Human Development Commission

Year Ended September 30, 2006

	Operating Contract # 2002-0025	Equipment Contract # 2002-0025	Total Expenses
Contracted expenses	\$ 753,957	\$ 78,337	\$ 832,294
Total expenses	\$ 753,957	\$ 78,337	\$ 832,294

Caro Transit Authority

Schedule 5

Net Eligible Expenses Computations of General Operations

Subcontractor - Human Development Commission

Year Ended September 30, 2006

	Federal Section 5311	Local Bus Operating Assistance
Expenses:		
Operating costs	\$ 753,957	\$ 753,957
Total expenses	753,957	753,957
Ineligible expenses:		
RTAP funds	(125)	(125)
Net eligible expenses	\$ 753,832	\$ 753,832
Maximum Section 5311:		
Reimbursement (15% of eligible expenses)	\$ 113,075	

Caro Transit Authority

Schedule 6

Mileage Data

Subcontractor - Human Development Commission

Year Ended September 30, 2006

	Public Transportation Mileage
Line-haul/demand response:	
First quarter	68,372
Second quarter	68,681
Third quarter	62,150
Fourth quarter	42,927
Total line-haul/demand response	242,130

The methodology used for compiling mileage has been reviewed and found to be an adequate method for recording vehicle mileage.

Caro Transit Authority

Schedule 7

Schedule of Caro Transit Authority and Subcontractor Agency Activity

Subcontractor - Human Development Commission

Year Ended September 30, 2006

	Caro Transit Authority	Human Development Commission	Total
Revenue:			
Local millage	\$ 194,917	\$ 0	\$ 194,917
State operating grant	279,814	0	279,814
State operating FY 02, 05 reconciliation	6,178	0	6,178
U.S. DOT Section 5311	113,075	0	113,075
U.S. DOT Section 5311 PY	6,713	0	6,713
Equipment grant	75,679	0	75,679
RTAP	125	0	125
Sale of equipment	250	0	250
Transfers	(723,296)	723,296	0
Interest	5,231	0	5,231
Line-haul (fare box)	0	108,998	108,998
Total revenue	(41,314)	832,294	790,980
Expenses:			
Operating expenses	0	753,957	753,957
Equipment acquisition	0	78,337	78,337
Total expenses	0	832,294	832,294
Excess of revenue over expense	(41,314)	0	(41,314)
Net assets - September 30, 2005	338,393	0	338,393
Net assets - September 30, 2006	\$ 297,079	\$ 0	\$ 297,079

Caro Transit Authority

Schedule 8

Schedule of Financial Assistance - Federal, State, and Other Year Ended September 30, 2006

Federal Grantor/State Grantor/ Program Title/Other Income	Federal CFDA Number	State Grantor Number	Program Award Amount	Federal Revenue	State/Local Revenue	Other Revenue	Expenditures	Excess Revenue/ (Expenses)
U.S. Department of Transportation:								
Section 5311	20.507		\$	\$ 113,075	\$	\$	\$ 113,075	\$ 0
Section 5311 PY	20.507		0	6,713	0	0	(6,713)	0
RTAP	20.507		0	125	0	0	(125)	0
Subtotals				119,913	0	0	(119,913)	0
Michigan Department of Transportation:								
Prior year equipment contract		2002-0025	0	0	0	0	(2,658)	(2,658)
Equipment contract		2002-0025	75,679	0	75,679	0	(75,679)	0
State operating		2002-0025	279,814	0	279,814	0	(279,814)	0
State operating FY 02, 05 reconciliation		2002-0025	6,178	0	6,178	0	(6,178)	0
Subtotals				0	361,671	0	(364,329)	(2,658)
Other revenue:								
Line-haul (fare box)				0	0	108,998	(108,998)	0
Interest				0	0	5,231	(5,231)	0
Sale of equipment				0	0	250	0	250
Local millage				0	0	194,917	(233,823)	(38,906)
Subtotals				0	0	309,396	(348,052)	(38,656)
Totals				\$ 119,913	\$ 361,671	\$ 309,396	\$ 832,294	\$ 41,314

Caro Transit Authority

Schedule 9

Schedule of Equipment Awards and Expenses

Year Ended September 30, 2006

	MDOT
Equipment award	\$ 75,679
Equipment acquisition	(75,679)
Excess of revenue	\$ 0

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
Caro Transit Authority
Caro, Michigan

We have audited the financial statements of Caro Transit Authority as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007. In our report, our opinion was qualified because Caro Transit Authority expenses equipment purchased with Michigan Department of Transportation grant funds, rather than capitalizing such equipment and depreciating the equipment over its useful life. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

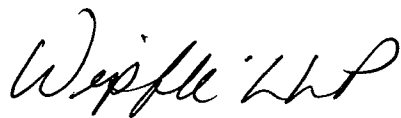
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Caro Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Caro Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Wipfli LLP". The script is cursive and fluid, with the letters "W", "i", "p", "f", "l", and "i" being particularly prominent and connected.

Wipfli LLP

March 26, 2007
Madison, Wisconsin